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C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 001421

SIPDIS

STATE FOR EAP/MLS; PACOM FOR FPA; TREASURY FOR OASIA:AJEWELL

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TAGS: [ECON](#) [PGOV](#) [PREL](#) [BM](#)

SUBJECT: PYINMANA: THE HOUSE THAT THREATS BUILT

REF: A. RANGOON 1346

[1](#)B. RANGOON 1325 AND PREVIOUS

Classified By: Econoff TLManlowe for Reason 1.4 (b,d)

[1](#)1. (C) Summary: The GOB has used a variety of incentives, including political pressure, forced donations, promises of in-kind payments, cash advances and "free" construction materials, to induce Burmese companies to build the extensive government and military facilities in the regime's new administrative capital in Pyinmana. For years, these firms prospered from close relations with the regime. Now they have to pay back, raising questions about how long these companies will subsidize the massive new construction envisioned. End summary.

[1](#)2. (C) The limited scope of official funds has given rise to many questions about the financing of the over one billion dollar move of Burma's capital to Pyinmana. One answer is strong political arm-twisting on most of the country's top firms to undertake projects and to cover a significant portion of their own expenses. According to one business rep, several dozen of Burma's largest construction companies in Pyinmana "are hurting real bad," as a result of the regime's inability, or unwillingness, to reimburse construction costs. A construction industry contact said the companies complain about the lack of payment, but have no choice but to continue building. The GOB uses various methods to (barely) compensate these firms, including:

- provision of 10% of the total cost of the construction contract up front, with vague assurances of future payments;
- payment in kind, including informal promises to hand over some of the Rangoon buildings to be vacated by the government;
- government-supplied building materials. State factories produce many construction materials, such as cement, pipes and wire, which the government has directed at little or no cost to Pyinmana projects; and
- quid pro quo. The GOB can withhold or promise future contracts for other work based on a firm's participation in Pyinmana construction.

[1](#)3. (C) The regime directly ordered some local firms to build in Pyinmana. For example, the owner of a major Rangoon-based conglomerate told emboff that the SPDC pressured his company to build a golf course. The company felt compelled to conduct a site survey and produce plans, but, citing a shortage of funds and business demands elsewhere, refused to build it, or manage it once built. SPDC generals were not pleased, so the company offered the survey and plans for free. They were readily accepted. The owner of a private bank was not so lucky, and will, as ordered, build a branch in Pyinmana. The owner of a furniture factory was ordered to provide parquet flooring, for which he was paid 25% of the market value.

Contractors Face Rising Costs and Scarce Supplies

[1](#)4. (C) Increased demand, corruption and a closed market have caused cement prices to increase from 3,000 kyat to over 5,000 kyat per bag. Only a few close associates of the regime have distribution rights to cement from the government factories. One private Mandalay cement factory owner, taking advantage of this increased demand, plans to double output. The GOB Trade Council has approved licenses to import cement from Thailand for only three well-connected individuals (including the regime's top business crony and arms trader, Te Za), so that the price of imported cement, slightly higher than the locally-produced product, has also risen. "The price is totally supply driven," said a construction industry contact.

[1](#)5. (U) Adequate numbers of skilled craftsman are not available in the Pyinmana area for such a large project. Construction firms recruited skilled laborers from Rangoon, paying them a premium to work on the new capital. But some workers, tired of sleeping in tents on site, paying high prices for food and delays in salary payments, have started to return to Rangoon, according to a source in the construction industry. In contrast, the primary contractor for Post's NEC construction has had no problems finding

skilled workers, according to the OBO Project Manager.

Money From Other Places

16. (C) The GOB cannot rely on crony companies alone, so has had to tap other sources of funds. We estimate that the October 20 reduction in fuel subsidies saves the GOB at least \$850,000 a day. Also, business contacts say that Chinese officials suspect financing they have given for other purposes has been diverted to Pyinmana. Internal GOB meeting notes obtained by Post recount an October 21 meeting (the day after the fuel price rise) at which Prime Minister Lt. General Soe Win complained about slow processing of Chinese loans. The PM then assigned Minister of National Planning, U Soe Tha to expedite the flow of Chinese funds into Burma's coffers. Contacts in the construction and mining industries said that work on many other government construction projects slowed or stopped during the year, and that only companies with Ministry of Defense contracts in Pyinmana were getting paid.

17. (SBU) Comment: Given the poor investment climate and slowing economy, the largest Burmese construction firms have to cultivate cozy relations with the regime in order to survive. These relations have generated generous profits for the crony firms. Now, vulnerable to GOB pressure to pay back previous favors, the firms are compelled to build on demand. Pyinmana is the largest infrastructure project in modern Burmese history. We doubt that companies will continue to build indefinitely without some recovery of their costs. This could mean a slowing of construction and/or construction "shortcuts" that could undermine the structural stability of the new buildings. End comment.

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